

**INTRODUCTORY REMARKS
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**HAWAII FUELS ANALYSIS INFORMATIONAL BRIEFING
JOINT HOUSE – SENATE HEARING**

Tuesday, January 28, 2003
1:30 p.m.
State Capitol Auditorium

Good afternoon Chair Morita and from the Senate, Chairs English, Menor, and Kawamoto. And, from the House, good afternoon, Chairs Hiraki, and Souki. Thank you for this opportunity to provide this interim report on the Hawaii fuels analysis, required and funded by the legislature, under Act 77 enacted last year.

We are here today to offer presentations of the preliminary findings of the comprehensive analysis. Our expert consultants have been onboard since early November. The scope and breadth of the analysis requires us to provide this interim report, as we expect to complete the effort later this year.

As you know, a major provision of Act 77 calls for an expert comprehensive, empirical examination of Hawaii's petroleum market and policy analysis of the efficacy and appropriateness of the Act 77 price cap mechanisms and other relevant provisions. The analysis is assessing alternative policies and other options available to the State of Hawaii. The outcome is to offer recommendations aimed at achieving fair and reasonable gasoline pricing for Hawaii's consumers.

Among the Act's several major provisions, gasoline price caps are scheduled for implementation on July 1, 2004. Resources were appropriated for DBEDT to hire expert consultants, and direction given to work with the Attorney General's Office and Legislative Reference Bureau, as well as other appropriate organizations to conduct the analysis.

The Legislature directed that the analysis, at a minimum, conduct the following major tasks:

- Review and analyze unsealed documents in *Anzai v. Chevron, et al.*, and other relevant publicly available reports and references (State's gasoline antitrust litigation settled 4/30/02);
- Gather and analyze empirical data to determine whether the Oil Price Information Service (OPIS) index or other appropriate benchmarks are applicable to Hawaii's markets;
- Review options available to the Legislature, including wholesale and retail gasoline price caps and the potential effects of imposing price caps;

- Analyze the Petroleum Commissioner's responsibilities and functions under Act 77, and provide an assessment of the staffing and resources required to implement the law; and
- Submit a final report of findings and recommendations to the Legislature, including proposed implementing legislation, as appropriate.

Although normal procurement procedures were waived, the Department published a request for proposals from qualified experts to assist with the study to seek out the best expertise. The procurement process was rigorous, nationwide, and included advertisements in the *Wall Street Journal* and local papers, notices on the Internet, and solicitation to a list of major industry consulting firms. In their proposals, companies had to prepare a detailed questionnaire to present a full disclosure of work done in the oil industry, and to determine whether this work could involve a conflict of interest. Six proposals were received.

Through this competitive process, the firm of Stillwater Associates was selected. Stillwater is a California firm with extensive industry experience and local expertise, which has been working on projects with the California Energy Commission. The California Energy Commission staff validated Stillwater's credentials to our satisfaction.

We have also retained the National Conference of State Legislatures (NCSL), an objective and uniquely qualified resource to help state legislatures identify and analyze relevant policy options. The NCSL Energy Program Director, Mr. Matthew Brown, is a well-known energy advisor to legislators across the U.S. Mr. Brown works on broad national energy issues, and in-depth energy policy analysis with individual states.

We also contacted the U.S. Federal Trade Commission (FTC) early in the process to determine relevancy of its work and possible interest in data sharing and other cooperation with Hawaii on the Act 77 project. As you know, the FTC is the federal "watchdog" agency that addresses competition in our country's marketplace. Dr. Jerry Ellig, Deputy Director, Office of Policy Planning at FTC's headquarters in Washington, D.C., expressed interest and FTC's willingness to help Hawaii.

Dr. Ellig and his colleagues Mr. Christopher Taylor, and Mr. Mark Williams, both Staff Economists, and Mr. Thomas Dahdouh, Staff Attorney, FTC Regional Office (San Francisco) have been extremely cooperative and supportive. At their own initiative, the FTC examined Hawaii's price cap law and other laws relevant to Hawaii's gasoline markets from their expert nation-wide perspective. The information briefing today will update all of you on their findings to date.

Unless you have further questions, without further ado, I would like to introduce our first speaker, Dr. Jerry Ellig, on the line from FTC headquarters in Washington, D.C.

Thank you.